SUPERIOR COURT FOR THE DISTRICT OF COLUMBIA
Civil Division

DISTRICT OF COLUMBIA, Department of Insurance, Securities and Banking, Petitioner, v. DC CHARTERED HEALTH PLAN, INC., Respondent.	Civil Action No.: 2012 CA 008227 2 Judge: Wright Calendar No.: 15 Next Event: Status – 1/15/13 at 9:30

NOTICE OF FILING SPECIAL DEPUTY TO THE REHABILITATOR'S FIRST STATUS REPORT

The District of Columbia and William P. White, Commissioner of the District of Columbia Department of Insurance, Securities and Banking ("DISB"), by and through his attorneys, the Office of the Attorney General of the District of Columbia, files the attached Special Deputy to the Rehabilitator's First Status Report authored by Daniel L. Watkins, Special Deputy to the Rehabilitator.

Respectfully submitted,

IRVIN B. NATHAN
Attorney General for the
District of Columbia

ELLEN A. EFROS
Deputy Attorney General
Public Interest Division

/s/ Stephane J. Latour
STEPHANE J. LATOUR
Chief, Civil Enforcement Section

/s/ E. Louise R. Phillips
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Attorney for the DC and Commissioner

CERTIFICATE OF SERVICE

I hereby certify that on this 11th day of January, 2013, a copy of the foregoing was filed and served by email upon:

William P. White, Commissioner
c/o Thomas M. Glassic, General Counsel,
DISB, Office of the General Counsel
810 First St., NE, Suite 701
Washington, D. C. 20002

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/s/ E. Louise R. Phillips
E. Louise R. Phillips
Assistant Attorney General

From: notifications@cfxpress.com
Sent: Friday, January 11, 2013 11:17 AM
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Judge:	Judge Wright
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SUPERIOR COURT FOR THE DISTRICT OF COLUMBIA
Civil Division

DISTRICT OF COLUMBIA,
Department of Insurance, Securities
and Banking,

Petitioner,

v.

DC CHARTERED HEALTH PLAN, INC.,

Respondent.

Civil Action No.: 2012 CA 008227 2
Judge: Wright
Calendar No.: 15
Next Event: Status – 1/15/13 at 9:30

SPECIAL DEPUTY TO THE REHABILITATOR'S FIRST STATUS REPORT

Daniel L. Watkins, as Special Deputy to the Rehabilitator, files this first status report:

1. **Order of Rehabilitation.** The Emergency Consent Order of Rehabilitation was entered by the Court on October 19, 2012, and the Commissioner of the District of Columbia Department of Insurance, Securities and Banking, William P. White, was appointed Rehabilitator. Under the Court's Order and DC law, the Rehabilitator is charged with operating Chartered's business (including taking possession of Chartered's assets and pursuing legal claims on the company's behalf) and taking such steps as are necessary to reform, revitalize or otherwise deal with Chartered.

2. **Key Activities Immediately After Rehabilitation.** The Rehabilitator appointed Dan Watkins Special Deputy (order **attached** as Exhibit 1) and Faegre Baker Daniels as the Rehabilitator's counsel. There was a delegation by the Rehabilitator to Maynard McAlpin, CEO of Chartered, of certain day-to-day operational matters, followed by meetings with

employees, lawyers and others conducting or having an impact on Chartered's business, including the Department of Health Care Finance (DHCF). From the beginning, the Rehabilitator has sought to ensure continuity of care for Chartered's 110,000 Medicaid and DC Alliance enrollees, make payments to over 5,000 providers and other creditors, consider the interests of Chartered's 160 employees and preserve any residual value for Chartered's shareholder. With those overarching goals in mind, the Rehabilitator's efforts to date have concentrated on: (a) seeking a solution to Chartered's financial issues through a transaction/plan, if feasible, (b) considering how best to respond to a request for proposals (RFP) from the DHCF regarding a new Medicaid agreement, either with or through a new partner, by the December 3, 2012 filing deadline, (c) facilitating completion of the outside audit of Chartered's December 31, 2011 statutory financial statements by the auditing firm of Brown Smith Wallace, as well as bringing Chartered's 2012 financial statements current, and (d) addressing legal matters facing Chartered.

3. **Initial Steps in Support of Those Activities.** The Rehabilitator hoped to find a partner who would acquire all of the outstanding shares of Chartered's common stock and recapitalize the company so as to cure its risk based capital deficiency. Toward that end, the Rehabilitator engaged the investment banking firm Keefe, Bruyette & Woods (KBW) as a financial advisor in the first week of Chartered's rehabilitation. KBW distributed a process letter and a draft of Chartered's unaudited summary 2011 statutory financial statements to those prospects who signed a confidentiality agreement with the Rehabilitator. Confidential meetings and discussions with several interested parties followed.

4. **Challenges Abound.** In searching for a partner willing to purchase and recapitalize Chartered, the Rehabilitator faced significant challenges, including:

A. Chartered's sole source of revenue (its Medicaid contract with the District) expires on April 30, 2013. Chartered required a new Medicaid contract with the District to be a viable acquisition candidate.

B. DHCF made clear in numerous communications to the District Council, District agencies and Chartered that while Chartered would be permitted to submit a bid for a new Medicaid contract (by the December 3, 2012 due date), no new contract would be awarded to Chartered unless Chartered had a new owner and was out of rehabilitation by mid-January 2013, when contract award recommendations were scheduled to be made to the Council. The Rehabilitator believed that meeting these requirements in the time allotted would not be possible – given the need to close a stock transaction and have it approved by the Court – but appreciated DHCF's concerns and imperatives.

C. DHCF's concerns were not limited to Chartered's financial condition, ownership and the fact that the company was in rehabilitation. DHCF also expressed increasing concerns with Chartered's performance and service levels, issuing a Corrective Action Plan/Non-Compliance letter on November 28, 2012. Given the scoring factors to be used in the RFP process, the Rehabilitator believed that performance and service level issues would present an additional obstacle to Chartered's securing a new Medicaid contract.

D. Chartered's financial picture was incomplete, but troubling. While year-end 2011 audited financials remained a work in progress, the unaudited financial statement for 2011 showed practically no remaining capital and surplus. Based on the

information available at the time the process letter was sent, the Rehabilitator calculated that approximately $30 million in new capital would be required to correct Chartered's risk based capital deficiency.

E. A significant portion of Chartered's assets relate to (i) Chartered's claims for premium owed under its existing Medicaid contract (which DHCF contests); and (ii) almost $14 million of investments that are pledged as security for a loan obligation owed by Chartered's parent, D.C. Healthcare Systems, Inc. (DCHSCI). Those assets are not currently available to pay claims and caused potential investors considerable concern.

F. In addition, potential investors were concerned because they could not adequately assess potential federal income tax implications involved with a purchase of Chartered, including the collectability from DCHSCI of an aged $4 million federal income tax asset recorded on Chartered's unaudited 2011 financial statement.

G. Potential acquirers had very little time to perform due diligence and secure financing, given the December 3, 2012 deadline for Chartered to bid on a new Medicaid contract with an acquirer.

H. Adverse publicity and speculation relating to an investigation of Chartered's ultimate controlling person and possible related party transactions raised questions among would-be acquirers.

In the months leading up to rehabilitation, DCHSI faced most of these same challenges when it tried (unsuccessfully) to sell Chartered.

5. **Discussions with Certain Prospects.** Starting the week of November 12, 2012, the Rehabilitator's efforts got down to specific discussions with strategic partners – firms that could bring clear financial strength and operational credibility to the DC Medicaid market very quickly. KBW ran the solicitation process, electronic data room and prospect discussions/due diligence, with support from the Special Deputy and Chartered employees. Transaction structure, given Chartered's legal and financial situation, was a key driver and consumer of time and effort as issues with prospects and their transaction teams were worked through. There were in-person meetings with three strategic partner prospects.

6. **The Choices Made.** During the week of November 26, 2012, the rehabilitation team, in consultation with the Rehabilitator and others at Chartered, determined that the best alternative for achieving value for Chartered under the circumstances was to enter into a letter of intent with AmeriHealth Mercy (AHM) (corporate overview **attached** as Exhibit 2) for the sale of certain Chartered assets, to work with AHM to complete a response to the DHCF RFP in AHM's name (utilizing key Chartered personnel and experience in the response), and to negotiate a definitive agreement with AHM that would be subject to Court approval. Here are the reasons for those choices:

   A. The Rehabilitator believed that Chartered's chances of winning a new Medicaid contract were not realistic, given: (i) the DHCF requirement that Chartered have a new owner and be out of rehabilitation in January 2013; (ii) the financial and legal obstacles to closing a sale of the company and emerging from rehabilitation within a six week period at the end

of the year; and (iii) DCHF's concerns about Chartered's performance and service levels. Instead, the Rehabilitator concluded that the best option to realize value for Chartered and participate in serving enrollees and providers under a new contract was to enter into an asset purchase agreement with a financially strong company with significant expertise in the Medicaid space and a strong chance of success in the DHCF's rating criteria for a new contract.

B. With one exception, other parties expressing interest failed to provide certainty regarding their financing and capabilities in a timely manner or lacked experience in operating a Medicaid HMO.

C. Our investment banker, KBW, has expressed the view that the transaction reflected in the AHM letter of intent, if negotiated to final terms and closed, is the best alternative available given the circumstances and represents a reasonable reflection of any inherent value in Chartered's business operation in its current state.

7. **The Financial Audit.** Chartered submitted unaudited 2011 financial statements to DISB in April 2012. Chartered filed an independently audited December 31, 2011 statutory financial statement with DISB on January 10, 2013. Brown Smith Wallace LLC performed the audit, and a copy of the independent auditor's report is **attached** as Exhibit 3. Here are the highlights:

A. The statutory annual statement shows Chartered experienced a loss of $9.4 million in 2011 and ended the year with $5.9 million in capital and surplus. The financial results are somewhat stronger than reported in April 2012, due to the inclusion of a net $20 million retrospective premium receivable that had not been recorded as an asset in

the unaudited 2011 statutory financial statements filed in April 2012. This amount represents the estimated value of the company's net receivable for a premium claim under the existing Medicaid contract at December 31, 2011. The claim, which is pending before the District's Contract Appeals Board (CAB No. D-1445), is primarily driven by HIV pharmacy costs over and above Chartered's contracted premium rate with the District.

B. Chartered's audited statement also recognizes that some related party balances previously recorded as assets do not qualify for inclusion in Chartered's financial statement under DC law:

- A $1,027,504 receivable related to payments to the Chartered Family Health Center (CFHC), a former affiliate of Chartered, for which the auditors found inadequate documentation to support the transactions; and

- A $2,828,018 receivable for net federal income tax amounts currently due Chartered from DCHSI, which was deemed to not qualify for inclusion in Chartered's financial statement because it is long overdue.

Chartered is demanding that DCHSI (i) pay the $2,828,018 income tax receivable and (ii) provide appropriate documentation or pay Chartered $1,027,504 for the unsupported amounts paid to CFHC. Chartered also is demanding that the holding company account to Chartered on tax matters.

C. Other adjustments to Chartered's restated 2011 financials include:

- Reductions of $2.2 million in premium income and $2.9 million in healthcare recoverables previously booked as assets; and

- An increase of $5 million in claims liabilities based on claim trends and actual cost analysis in 2012. This adjustment to claims liability also caused an increase in claim adjustment expense liability.

8. **Other Matters.** As part of the matters described in paragraphs 1-7 above, the Rehabilitator has relied on Chartered's employees, counsel and advisors in conducting Chartered's business and moving forward in the receivership. The Rehabilitator has also authorized the continuation of the pursuit of claims and assets and the defense of any litigation, including litigation initiated in the DC Superior Court (Case No. 2012 CA 009510 B) on December 21, 2012, against Chartered by Washington Hospital Center Corporation and MedStar Georgetown Medical Center, Inc. for injunctive relief growing out of Chartered's contractual audit of claims paid to those two entities. Finally, the Rehabilitator has worked with the Office of Attorney General to respond to a protest filed by DCHSI with the Contract Appeals Board (CAB No. P-0930) in connection with the RFP for a new Medicaid contract.

9. **Where From Here.** Chartered's financial reality is that fair value on two currently illiquid assets on its balance sheet need to be realized – (i) the premium claim under Chartered's existing Medicaid contract and (ii) assets pledged to Cardinal Bank pursuant to a loan transaction with Chartered's holding company in 2008. That is a tall order, but the Rehabilitator is working diligently to achieve that fair value and marshal sufficient assets to satisfy claims and realize any residual value when the current Medicaid contract ends. The Rehabilitator believes an AHM transaction will help facilitate that desired result.

Negotiation of a definitive transaction agreement with AHM is underway, to be followed by a request for the Court's consideration and approval of that agreement. Hopefully, a successful result for AHM in the DHCF RFP process can lead to implementation of the Chartered solution being pursued by the Rehabilitator. In the meantime, the Rehabilitator and his Special Deputy will continue to follow the procedures outlined in the initial redelegation to management so that the day-to-day administration of Chartered's business occurs – principally, service to over 110,000 enrollees and payment to providers. The Rehabilitator and Special Deputy will also be carrying out their other responsibilities under the October 19 Emergency Consent Order of Rehabilitation.

Respectfully submitted,

/s/ Daniel L. Watkins

DANIEL L. WATKINS
Special Deputy Rehabilitator
Chartered Health Plan
1025 15th St. NW
Washington, DC 20005

EXHIBIT 1

Government of the District of Columbia
Vincent C. Gray, Mayor
Department of Insurance, Securities and Banking

William P. White
Commissioner

ORDER APPOINTING A SPECIAL DEPUTY

WHEREAS, on October 19, 2012, Judge Rufus G. King, III, Superior Court of the District of Columbia, issued an Order of Rehabilitation ("Order") authorizing the Rehabilitation of DC Chartered Health Plan, Inc. ("Chartered") by William P. White, the Commissioner of the Department of Insurance, Securities and Banking ("Commissioner" and/or "Rehabilitator"), pursuant to D.C. Official Code §§ 31-1303, 1310-1312 and 3420, in the proceeding captioned *District of Columbia, Department of Insurance, Securities and Banking v. DC Chartered Health Plan, Inc.*, Civil Action No. 2012 CA 8227; and

WHEREAS, the Order attached hereto and incorporated within this Order, appoints the Commissioner and his successors in office as Rehabilitator of Chartered; and

WHEREAS, the Order authorizes the Rehabilitator to take possession and administer the assets of Chartered; and

WHEREAS, the Order vests title in the Rehabilitator of all assets of Chartered; and

WHEREAS, the Order grants the Commissioner all rights, power, and authority vested by law in a Rehabilitator; and

WHEREAS, the Order authorizes the Commissioner as Rehabilitator to appoint one or more special deputies who may exercise the powers and responsibilities of the Rehabilitator;

NOW, THEREFORE, IT IS ORDERED as follows:

1. That pursuant to the Rehabilitator's authority under the Order and the provisions of Title 31, Chapter 13 of the District of Columbia Official Code, Daniel L. Watkins is hereby appointed as Special Deputy to the Rehabilitator for the purposes of rehabilitating Chartered and for any related actions; and

2. That the reasonable compensation of Daniel L. Watkins as Special Deputy shall be determined pursuant to a letter of engagement entered into between the Rehabilitator and Daniel L. Watkins and attached hereto; and

3. That Daniel L. Watkins as Special Deputy, shall have all of the powers of the Rehabilitator under the Order and Title 31, Chapter 13 of the District of Columbia Official Code, and any other statutory or regulatory provisions granting the Commissioner powers or authority related to the Rehabilitation of an insurer, including the authority to appear in any court to enforce the Order; and

4. That Daniel L. Watkins as Special Deputy shall serve at the pleasure of the Rehabilitator.

5. This Order shall be effective *nunc pro tunc* as of the 19th day of October, 2012.

SO ORDERED.

WITNESS MY HAND AND THE OFFICIAL SEAL of the District of Columbia Department of Insurance, Securities and Banking, this Second day of November, 2012.

Government of the District of Columbia
Department of Insurance, Securities and Banking

William P. White, Commissioner/Rehabilitator

EXHIBIT 2

AMERIHEALTH MERCY FAMILY OF COMPANIES

AmeriHealth traces its roots back to Dublin, Ireland. Catherine McAuley used her inheritance to serve the poor, especially women and children, and founded the Sisters of Mercy in 1831. The Sisters of Mercy arrived in Philadelphia in 1861 and immediately began visiting the sick in their homes and setting up schools for the instruction and care of children and adults.

The Sisters founded Misericordia Hospital (now known as Mercy Philadelphia Hospital) in 1918. In the late 1970's and early 1980's the hospital witnessed a troubling increase in the number of people, mostly on Medical Assistance (Pennsylvania's Medicaid program), using the emergency room to seek primary care. This was not a good solution, as the critical pace of an emergency room is not intended to foster a patient/physician relationship, and engenders high costs and poor stewardship of resources.

Thus the concept of Mercy Health Plan was born: a voluntary Medicaid managed care plan. In 1983, the leaders of Misericordia Hospital persuaded the Pennsylvania state government to let them start a pilot capitated health plan to give 300 Medicaid recipients a "medical home" to reduce dependence on the emergency room for primary care. The Plan would work to connect each member with a Primary Care Physician, to encourage consistent and proactive health care, to extend benefits beyond the state fee-for-service model and to encourage the use of the emergency room for emergencies only.

Mercy Health Plan grew quickly. And in 1996, the owners of Mercy Health Plan joined with Independence Blue Cross to form the partnership that served as the foundation for the Company's growth to date. In 2011, the original owners of Mercy Health Plan elected to return to their original mission of providing acute care services to the poor. Blue Cross Blue Shield of Michigan agreed to join Independence Blue Cross in owning AmeriHealth Mercy resulting in the current ownership structure of the Company.

The AmeriHealth Family of Companies has grown to be one of the largest organizations of government-sponsored managed care and administrative services entities in the United States, touching almost five million members. AmeriHealth serves its members through five major products:

Medicaid (including TANF, ABD, SSI and TPA)

- ☐ Programs for Dual Eligibles (including D-SNPs and FIDEs)
- ☐ Low-Income Products (including SCHIP and Uninsured products)
- ☐ Behavioral Health (risk and non-risk); and
- ☐ Pharmacy (Medicaid, Part D, and Commercial.

The states in which we have served Medicaid-eligible enrollees are as diverse as our enrollee population, including: Pennsylvania, New Jersey, Kentucky, South Carolina, Indiana, Louisiana and Nebraska. As of January 1, 2013, we will also serve members in Florida, and members enrolled in our D-SNPS in South Carolina and Pennsylvania. We also anticipate serving Medicaid members in Michigan during the first quarter of 2013.

Our areas of service have included both urban and rural populations. Enrollees benefit from an organization combining high-quality managed care expertise and a high-touch local presence.

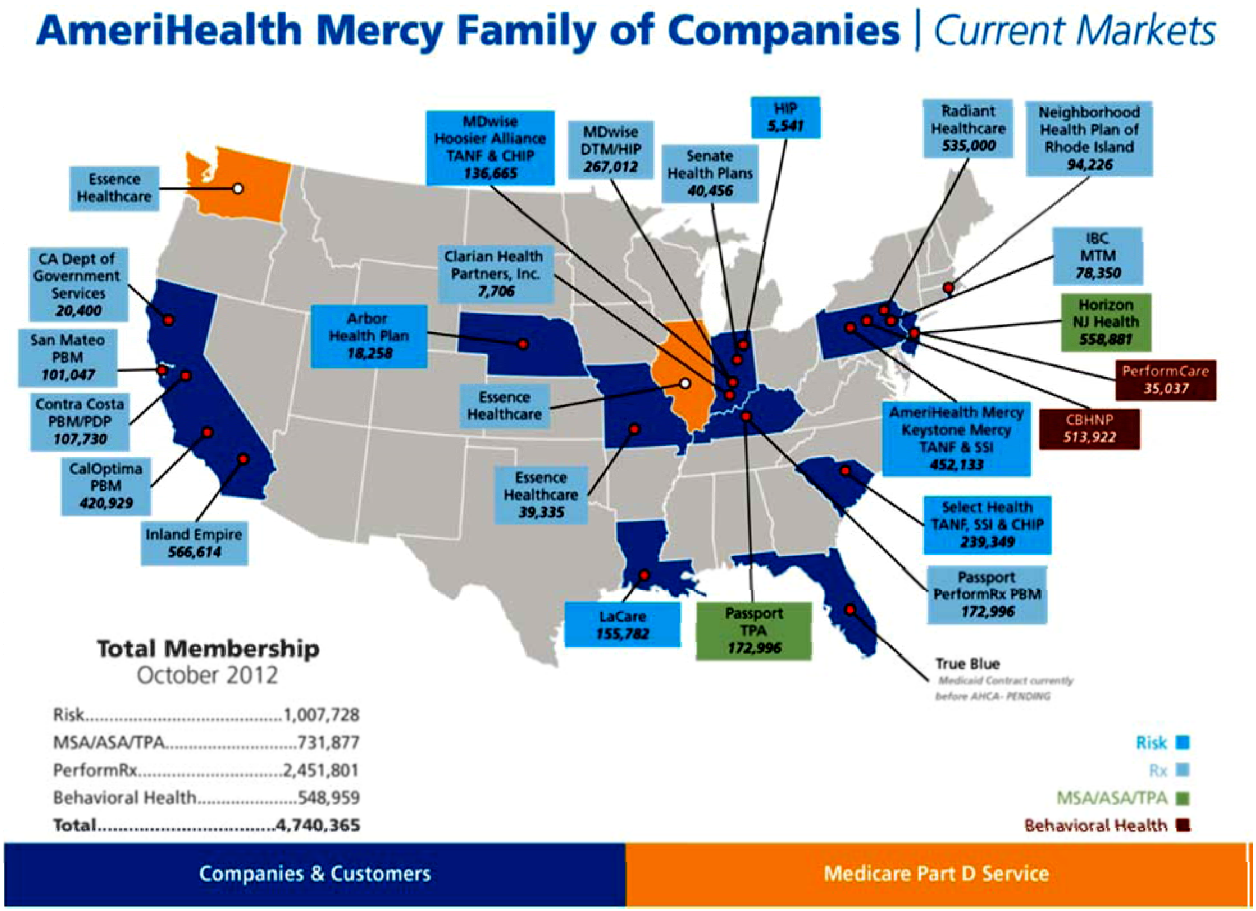

EXHIBIT 3

D.C. CHARTERED HEALTH PLAN, INC.

IN RECEIVERSHIP

(A WHOLLY OWNED SUBSIDIARY OF D.C. HEALTHCARE SYSTEMS, INC.)

STATUTORY FINANCIAL STATEMENTS

DECEMBER 31, 2011

(WITH INDEPENDENT AUDITORS' REPORT THEREON)

Table of Contents

BROWN SMITH WALLACE LLC
1050 N. LINDBERGH BOULEVARD ST. LOUIS, MO 63132 PH 314.983.1200 FX 314.983.1300 WWW.BSWLLC.COM

Independent Auditors' Report

Commissioner as Rehabilitator
D.C. Chartered Health Plan, Inc. in Receivership
Washington, D.C.

We were engaged to audit the accompanying Statutory Statement of Admitted Assets, Liabilities, and Capital and Surplus of D.C. Chartered Health Plan, Inc. in Receivership ("Chartered"), a wholly owned subsidiary of D.C. Healthcare Systems, Inc. (the "Parent"), as of December 31, 2011 and the related Statutory Statements of Operations, Capital and Surplus, and Cash Flows for the year then ended. These statutory financial statements are the responsibility of Chartered's management and the Commissioner as Rehabilitator. Our responsibility is to express an opinion on the statutory financial statements based on our audit.

Except as discussed below, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Chartered's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statutory financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described more fully in Note 2 to the statutory financial statements, Chartered prepared these statutory financial statements using accounting practices prescribed or permitted by the Department of Insurance, Securities and Banking of the District of Columbia, which practices differ materially from accounting principles generally accepted in the United States of America.

Because of inadequacies in Chartered's accounting records and the inability to support certain transactions with related parties and other account balances, we were unable to rely on the amounts recorded in the Statement of Admitted Assets, Liabilities, Capital and Surplus as of December 31, 2010.

As discussed in Note 5 to the statutory financial statements, Chartered recognized a change in accounting principle to account for Chartered's contract with the Department of Health Care Finance for the District of Columbia as a retrospectively rated contract. Management has recorded a retrospective premium receivable as of December 31, 2011, based on their best estimate of collectability. This claim is currently under appeal with the Contract Appeals Board of the District of Columbia. The actual amount ultimately received could vary significantly from the recorded $20 million amount as of December 31, 2011. Additionally, Chartered recognized the change in accounting principle as of December 31, 2011, and failed to account for this change in accounting principle retrospectively.

We were unable to obtain a discussion or evaluation from Chartered's outside legal counsel of pending or threatened litigation described in Note 8(b). We were unable to obtain sufficient appropriate audit evidence by performing other auditing procedures.

As discussed in Note 8(c) to the statutory financial statements, Chartered has pledged $13,953,879, of investments as of December 31, 2011, as collateral to satisfy a long-term bank loan agreement for its Parent company.

It is our understanding that the Parent has not filed consolidated Federal Income Tax returns that include Chartered for any periods subsequent to April 30, 2010, the Parent company's fiscal year end.

Because of the significance of the matters discussed in the preceding paragraphs, the scope of our work was not sufficient to enable us to express, an unqualified opinion on the results of operations, changes in capital and surplus and cash flows for the year ended December 31, 2011.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary regarding all of the above matters, the Statutory Statement of Admitted Assets, Liabilities, and Capital and Surplus as of December 31, 2011 presents fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of D.C. Chartered Health Plan, Inc. as of December 31, 2011, on the basis of accounting described in Note 2.

The accompanying financial statements have been prepared assuming that Chartered will continue as a going concern. As discussed in Note 19 to the financial statements, on October 19, 2012, Chartered was placed into Rehabilitation by the Superior Court for the District of Columbia. This condition raises substantial doubt about Chartered's ability to continue as a going concern. The statutory financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Our audit was conducted for the purpose of forming an opinion on the statutory basis financial statements taken as a whole. The accompanying Supplemental Summary Investment Schedule and Investment Risk Interrogatories (collectively referred to as "Supplemental Schedules") of Chartered as of December 31, 2011 are presented for purpose of additional analysis and are not a required part of the statutory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the statutory financial statements. The information has been subjected to the auditing procedures applied in the audit of the statutory basis financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the statutory basis financial statements or to the statutory basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the statutory basis financial statements as a whole.

This report is intended solely for the information and use of the Commissioner as Rehabilitator and management of D.C. Chartered Health Plan, Inc. in Receivership and for filing with the Department of Insurance, Securities and Banking of the District of Columbia and should not be used for any other purpose.

Brown Smith Wallace, L.L.C.

St. Louis, Missouri
January 9, 2013

D.C. CHARTERED HEALTH PLAN, INC., in Receivership
(A Wholly Owned Subsidiary of D.C. Healthcare Systems, Inc.)

Statutory Statement of Admitted Assets, Liabilities and Capital and Surplus

December 31, 2011

(See Independent Auditors' Report)

ADMITTED ASSETS	
Cash and Invested Assets	
Bonds, at cost which approximates fair value	**$ 15,025,957**
Cash and cash equivalents	**16,975,318**
Total Cash and Invested Assets	**32,001,275**
Accrued investment income	**122,683**
Uncollected premiums	**5,299,409**
Accrued retrospective premiums (See Note 5 regarding collectibility)	**20,000,000**
Reinsurance recoverable	**277,703**
Health care receivables	**143,721**
TOTAL ADMITTED ASSETS	**$ 57,844,791**
LIABILITIES AND CAPITAL AND SURPLUS	
Current Liabilities	
Claims unpaid	**$ 43,000,000**
Unpaid claims adjustment expenses	**1,275,722**
Other liabilities and accrued expenses	**7,619,624**
Total Current Liabilities	**51,895,346**
Capital and Surplus	
Class A common stock - $0.10 par value, 1,000 shares authorized, issued and outstanding	**100**
Gross paid-in and contributed surplus	**4,690,419**
Unassigned surplus	**1,258,926**
Total Capital and Surplus	**5,949,445**
TOTAL LIABILITIES AND CAPITAL AND SURPLUS	**$ 57,844,791**

The accompanying notes are an integral part of these statutory financial statements.

D.C. CHARTERED HEALTH PLAN, INC., in Receivership
(A Wholly Owned Subsidiary of D.C. Healthcare Systems, Inc.)

Statutory Statement of Operations

Year ended December 31, 2011

(See Independent Auditors' Report)

UNDERWRITING INCOME	
Net premium income	**$ 383,743,178**
Total Underwriting Income	**383,743,178**
UNDERWRITING EXPENSES	
Claims incurred, net of reinsurance	**346,596,401**
Claims adjustment expenses	**12,344,020**
General administrative expenses	**26,915,784**
Total Underwriting Expenses	**385,856,205**
Net Underwriting Loss	**(2,113,027)**
Net investment income	**271,136**
Allowance on accrued retrospective premiums	**(10,000,000)**
Related party bad debt expense	**(3,855,522)**
Other income	**6,343,198**
Net loss before federal taxes	**(9,354,215)**
Federal income tax expense	**-**
NET LOSS	**$ (9,354,215)**

The accompanying notes are an integral part of these statutory financial statements.

D.C. CHARTERED HEALTH PLAN, INC., in Receivership
(A Wholly Owned Subsidiary of D.C. Healthcare Systems, Inc.)

Statutory Statement of Capital and Surplus

Year ended December 31, 2011

(See Independent Auditors' Report)

	Common Stock	Additional Paid in Surplus	Unassigned Surplus	Total
Balance at December 31, 2010	$ 100	$ 4,690,419	$ 12,754,128	$ 17,444,647
Net loss	-	-	(9,354,215)	(9,354,215)
Deferred income tax	-	-	(3,319,807)	(3,319,807)
Change in nonadmitted assets	-	-	1,611,527	1,611,527
Prior period adjustment	-	-	(432,707)	(432,707)
Balance at December 31, 2011	**$ 100**	**$ 4,690,419**	**$ 1,258,926**	**$ 5,949,445**

The accompanying notes are an integral part of these statutory financial statements.

D.C. CHARTERED HEALTH PLAN, INC., in Receivership
(A Wholly Owned Subsidiary of D.C. Healthcare Systems, Inc.)

Statutory Statement of Cash Flows
Year ended December 31, 2011
(See Independent Auditors' Report)

Cash flows from operating activities:	
Premiums collected, net of reinsurance	**$ 366,272,113**
Benefit payments	**(333,628,360)**
General and administrative expenses paid	**(45,030,386)**
Net investment income	**303,881**
Federal income taxes	**3,368,587**
Net cash used in operating activities	**(8,714,165)**
Cash flows from investing activities:	
Proceeds from investments	**4,201,743**
Costs of investments acquired	**(7,049,630)**
Net cash used in investing activities	**(2,847,887)**
Cash flows from financing activities:	
Other cash provided, net	**(267,912)**
Net cash used in financing activities	**(267,912)**
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(11,829,964)**
Cash and cash equivalents, beginning of year	**28,805,282**
Cash and cash equivalents, end of year	**$ 16,975,318**

The accompanying notes are an integral part of these statutory financial statements.

(1) Description of Business

D.C. Chartered Health Plan, Inc. in Receivership (Chartered) was established on December 31, 1986 under the laws of the District of Columbia. Chartered's primary purpose is to provide quality health care within a managed care framework. Chartered accomplishes this primarily through a contract with the District of Columbia Government Department of Health Care Finance (the DHCF), which requires Chartered to provide health care services to the residents of the District of Columbia (the District) who qualify under the Medicaid, Temporary Aid to Needy Families (TANF), and Alliance programs through a Health Maintenance Organization (HMO). Alliance enrollees represent the population not eligible for Medicaid but whose income falls below 200% of the poverty level. Chartered currently provides health care services to approximately 110,000 beneficiaries receiving assistance under Medicaid, Alliance, and TANF. All of Chartered's revenue was earned from its contracts with the DHCF for the year ended December 31, 2011. Chartered previously provided the services of a health center to members through a contract with an affiliated entity, Chartered Family Health Center, P.C. (CFHC). The Chartered Family Health Center ceased operations effective February 2011.

Chartered's business strategy lies in its fundamental commitment to promoting access and emphasizing prevention and health maintenance, as well as treatment. Each member enrolled in Chartered is assigned a primary care physician. Chartered has approximately 3,000 physicians under contract, including 500 primary care physicians. Chartered's members receive prescriptions, health education, nutrition counseling, and when necessary, referrals to specialists and hospital services. Chartered focuses on increasing access to its services by (i) improving knowledge and awareness of benefits and (ii) providing extensive wellness and preventative health care services.

Medicaid beneficiaries in the District are required to enroll in an approved managed care plan, one of which is Chartered. Those beneficiaries who do not voluntarily select a managed care plan are assigned to a default plan. Chartered entered into a contract with the DHCF, under which Chartered is designated as the default plan for one-half of the Medicaid beneficiaries who do not voluntarily select a plan. The current contract extends through April 30, 2013. Chartered received a rate adjustment effective May 1, 2012 from the DHCF. As discussed further in Note 19 Chartered chose not to bid on the subsequent contract that commences May 1, 2013.

Alliance beneficiaries in the District are required to enroll in an approved managed care plan, one of which is Chartered. Those beneficiaries who do not voluntarily select a managed care plan are assigned to a default plan. Chartered entered into a contract with the DHCF, under which Chartered is designated as the default plan for one-half of the Alliance beneficiaries who do not voluntarily select a plan. Chartered's contract with DHCF to cover Alliance beneficiaries extends through April 30, 2013. Chartered also received a rate adjustment for the Alliance program effective May 1, 2012. As discussed further in Note 19 Chartered chose not to bid on the subsequent contract that commences May 1, 2013.

Until May 17, 2000, Chartered was owned by PHP Corporation. As a result of the bankruptcy proceedings of PHP Corporation, the stock of Chartered was held in a trust (the Collateral Trust), and Bank of America, N.A. (BOA) was designated and appointed as the Collateral Trustee, obtaining full legal title to the collateral and full legal power and authority to transfer, sell, assign, or dispose of the collateral, including the stock of Chartered.

The Collateral Trust entered into a stock sale and transfer agreement pursuant to which the stock of Chartered was sold to D.C. Healthcare Systems, Inc. ("DCHSI") on May 17, 2000. DCHSI financed the purchase through a $3,500,000 bank loan at a floating prime rate of interest. Payments of principal and interest on the loan were scheduled to continue monthly through September 12, 2011. The outstanding principal balance on the loan was $425,863 at December 31, 2011. Chartered and the owner of DCHSI are guarantors on the loan. This loan is collateralized by a certificate of deposit from DCHSI that will be held for the entire term of the loan. The balance of the certificate of deposit held by DCHSI, including accrued interest, was $486,223 at December 31, 2011. Additionally, Chartered granted the lender a first security interest in certain collateral held by Chartered; however, in the event the lender exercises its rights under the guaranty, the owner of DCHSI has agreed in writing to irrevocably and unconditionally hold Chartered harmless and indemnify Chartered for any monies that Chartered may be obligated to pay under the guaranty. Although, statutory accounting pronouncements require that Chartered record a liability for the amount of the guarantee at December 31, 2011, management determined not to record such a liability as the underlying loan was paid off on February 2, 2012.

As discussed further in Note 19, Chartered was placed into Rehabilitation on October 19, 2012. This raises uncertainty about whether Chartered will be able to continue as a going concern. The Rehabilitator is working to sell Chartered and currently there is a non-binding Letter of Intent in place to sell certain assets to a third-party.

(2) Basis of Presentation and Summary of Significant Accounting Policies and Practices

(a) Basis of Presentation

The accompanying statutory financial statements of Chartered have been prepared on the statutory basis of accounting, in accordance with the accounting practices adopted by the National Association of Insurance Commissioners (NAIC) codification project (Codification) as prescribed or permitted by Department of Insurance, Securities and Banking of the District of Columbia (the Department). The Codification was adopted by the Department without significant modification. The Department has determined that certain of Chartered's pledged investments should be classified as admitted assets, and are included in bonds, pledged in the accompanying statements of admitted assets, liabilities, and capital and surplus, see note 8(c). Chartered has no material statutory accounting practices that differ from those of the Department or the Codification.

These statutory financial statements differ materially from financial statements prepared in accordance with principles generally accepted in the United States of America ("GAAP").

The principal differences are:

a) Deferred tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus (2) the lesser of the remaining gross deferred tax assets expected to be realized within one year of the balance sheet date or 10% of capital and surplus, excluding any net deferred tax assets, Electronic Data Processing (EDP) equipment and operating software, and any net positive goodwill, plus (3) the amount of remaining gross deferred tax assets that can be offset against existing gross deferred tax liabilities. The remaining deferred tax assets are non-admitted. Deferred taxes do not include amounts for state taxes. Under GAAP, state taxes are included in the computation of deferred taxes, a deferred tax asset is recorded for the amount of gross deferred tax assets expected to be realized in future years and a valuation allowance is established for deferred tax assets not realizable.

b) Certain assets such as uncollected premiums and other receivables over 90 days past due, prepaid expenses, provider advances, provider overpayments, pharmacy rebate receivable, leasehold improvements, certain furniture and equipment, computer software, and amounts due from affiliates are designated as non-admitted for statutory accounting purposes if they fail to meet certain tests and are excluded from the statutory statements of admitted assets, liabilities, and capital and surplus by a direct charge to capital and surplus. For GAAP, these amounts are carried as assets, net of a valuation allowance, if necessary.

c) Intangible assets, including goodwill, are non-admitted and, therefore, are not reflected in Chartered's statutory statements of admitted assets, liabilities, and capital and surplus.

d) Cash and cash equivalents in the statements of cash flows represent cash balances and investments with remaining maturities of one year of less. Under GAAP, the corresponding caption of cash and cash equivalents includes cash balances and investments with initial maturities of three months or less. Also, the statutory statements of cash flows do not include classifications consistent with GAAP and a reconciliation of net income to net cash provided by operating activities is not provided.

(b) Bonds

Bonds are comprised of certificates of deposits with original maturities greater than one year. The certificates are held by financial institutions and are carried at cost, which approximates fair value. Bonds totaled $15,025,957 as of December 31, 2011.

(c) Cash and Cash Equivalents

Cash and cash equivalents generally comprise of cash, money market accounts and certificates of deposits with original maturities of twelve months or less at the date of purchase. The certificates are held by financial institutions and are carried at cost, which approximates fair value. Cash and cash equivalents were $16,975,318 as of December 31, 2011.

(d) Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over a period not to exceed three years. Equipment under capital leases is stated at the present value of minimum lease payments and is amortized using the straight-line method over the term of the lease.

(e) Health Care Receivables

Health care receivables consist primarily of pharmaceutical rebate receivables, provider recoveries and provider advances. Pharmacy rebate receivables are estimated based on the most currently available data from Chartered's claims processing systems and from data provided by Chartered's pharmaceutical benefit manager. Provider recoveries consist of claim overpayments to providers, which are due back to Chartered. At December 31, 2011, admitted health care receivables of $143,721 consisted solely of pharmaceutical rebate receivables.

(f) Premium Revenue

Chartered recognizes premiums received for members enrolled in the Medicaid and Alliance programs as revenue in the period to which health care coverage relates. Member premiums are paid on a fixed monthly fee per capita basis. During 2011 the DHCF withheld one percent of Chartered's premium revenue. The amount withheld is payable under DHCF's incentive program if certain criteria are met by Chartered during the contract period. In 2011, $5,488,000 was withheld from Chartered. Chartered recorded no premium revenue or receivable for amounts expected to be received in accordance with DHCF's incentive program.

(g) Health Care Costs and Unpaid Claims Adjustment Expenses

Chartered has entered into hospital service contracts to provide the necessary inpatient and outpatient hospital services to its enrollees. Under the contracts, Chartered pays the participating hospitals at the fee-for-service rates in effect at the time the services were provided to its enrollees. Chartered has also entered into several agreements with network physicians and suppliers to provide medical services and supplies to Chartered's enrollees at agreed-upon fee-for-service rates or at fixed fees per member per month (capitation).

Monthly capitation payments to primary care physicians and other health care providers are expensed as paid. Health care costs and health care costs payable include amounts for known services rendered and an estimate of incurred but not reported services rendered by hospitals, physicians, and other health care providers. The estimated incurred but not reported health care costs payable have been actuarially determined based on relevant industry data and Chartered's historical trends. Management believes that the methodologies employed to estimate the health care costs payable are reasonable and that the amount accrued is appropriate.

As part of the process to estimate the cost of all claims reported but unpaid and claims incurred but not reported, Chartered accrued $1,275,722 at December 31, 2011, as an estimate of the expense to settle these claims.

(h) Income Taxes

In accordance with the tax allocation agreement with DCHSI, Chartered is included in a consolidated federal and state income tax return with DCHSI, using an April 30 fiscal year-end. Deferred tax assets, deferred tax liabilities, and income tax expense or benefit associated with Chartered have been provided for on a separate company basis. In addition, Chartered determines its deferred income taxes on a separate company basis and remits its estimated tax payment to DCHSI. DCHSI, including Chartered has filed Federal income tax returns through April 30, 2010. It is management's understanding that tax returns for fiscal years ended April 30, 2011 and 2012, have not been filed with the Internal Revenue Service, as of the date of this report.

Income taxes are accounted for under the asset and liability method. Deferred tax assets (DTAs) and liabilities (DTLs) are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. DTAs and DTLs are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on DTAs and DTLs from a change in tax rates is recognized in the period that includes the enactment date.

Pursuant to Statements of Statutory Accounting Principles (SSAP) No. 10R, *Income Taxes*, gross DTAs are first reduced by a statutory valuation allowance adjustment to an amount that is more likely than not to be realized (adjusted gross DTAs). Adjusted gross DTAs are then admitted in an amount equal to the sum of (1) previously paid federal income taxes, which are expected to be recovered through loss carrybacks or existing temporary differences, which reverse within a year and (2) the lesser of the amount of gross DTAs expected to be realized within one year of the balance sheet date after the application of (1) or 10% of statutory capital and surplus and (3) the amount of gross DTAs, after the application of (1) and (2) that can be offset against existing gross DTLs. Also pursuant to SSAP No. 10R, for reporting entities which are subject to risk-based capital (RBC) requirements or which are required to file a RBC report with its domiciliary state, when certain RBC thresholds are exceeded, the reporting entities have the option of calculating the admitted portion of adjusted gross DTAs in accordance with paragraph l0 of SSAP No. 10R, which would result in a higher admitted portion. Chartered did not qualify for such election for the year ended December 31, 2011.

(i) Premium Deficiency Reserve

Premium deficiency reserves and the related expense are recognized when it is probable that expected future health care and maintenance costs under a group of existing contracts will exceed anticipated future premiums and reinsurance recoveries over the remaining lives of the contracts. The methods for making such estimates and for establishing the resulting reserves are continually reviewed and updated, and any adjustments resulting therefrom are reflected in current operations. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. As discussed further in Note 5, management has identified additional premiums due under terms within Chartered's contract with DHCF (retrospective premiums). At December 31, 2011 the need for a premium deficiency reserve was assessed and management is of the opinion that no premium deficiency reserve was required, after considering the affect of retrospective premiums.

(j) Use of Estimates

Management of Chartered has made a number of estimates and assumptions relating to the reporting of admitted assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these statutory financial statements in conformity with statutory accounting principles. Actual results could differ from those estimates.

(3) Investments

***(a)* Bonds**

The cost, which approximates fair value, of bonds, comprised solely of certificates of deposit, at December 31, 2011 by contractual maturity, are shown below.

Maturing in one year or less	$ 4,689,260
Maturing after one year through five years	10,336,697
	$ 15,025,957

***(b)* Net Investment Income**

The following table reflects net investment income by type of investment:

Bonds	$ 164,844
Cash and cash equivalents	188,536
Other	13,809
Gross investment income	367,189
Less investment expenses	96,053
	$ 271,136

***(c)* Regulatory Deposits**

At December 31, 2011 investments with a carrying value of $317,000 were on deposit with the Department of Insurance, Securities and Banking of the District of Columbia.

(4) Property and Equipment

At December 31, 2011, Chartered's property and equipment was non-admitted based upon the requirements of SSAP No. 16R.

Depreciation and amortization expense related to property and equipment and software, including non-admitted assets, was $442,849 for the year ended December 31, 2011.

(5) Retrospective Premiums – Change in Accounting Principle

During 2012, management determined that contracts in force with DHCF should be treated as retrospectively rated contracts in accordance with SSAP No. 66 – *Retrospectively Rated Contracts*. This represents a change in accounting principle which management determined to apply as of December 31, 2011. This represents an exception to statutory accounting principles, as the change in accounting principle should have been applied retroactively.

As of December 31, 2011 Chartered recorded an Accrued Retrospective Premium Receivable net amount of $20 million for the period of August 2010 – December 31, 2011 related to the Medicaid contract, after consideration of a $10,000,000 allowance as reflected in the Statutory Statement of Operations, based on management's assessment of collectability. The gross retrospective premium represents 7.8% of premiums earned during 2011.

On April 10, 2012, Chartered filed a claim with the District's Contracts Appeals Board in the amount of $25.8 million for the 2010 – 2011 Contract for pharmacy losses incurred from August 1, 2010 – April 30, 2012 under the Medicaid contract, following denial of the claim by DHCF. Chartered had requested that the District review the Contract's pharmacy rates and make a rate adjustment for the 2010 – 2011 contract year, based on management's assumption that current rates were actuarially unsound. During 2012, Chartered has revised this calculation based on a limited scope examination performed by the DISB. Chartered calculated the amount of retrospective premium by comparing premiums earned under the contract to total claims paid and certain additional expenses during the period from August 1, 2010 – April 30, 2012 based on data provided to Charted as part of the annual rate setting process. Chartered's claim with the District's Contracts Appeals Board is currently being revised as of the date of this report.

Amounts recorded represent management's best estimate of the receivable after considering all potential outcomes of this litigation under the District's Contracts Appeals Board. Resolution of this claim and ultimate collectability of the receivable recorded as of December 31, 2011, could significantly differ from management's estimate.

In addition, Chartered has drafted and intends to submit a claim with the District in connection with their contract with DHCF related to the Alliance program. Management is currently unable to estimate the amount of retrospective premium due to Chartered under the Alliance contract and has not recorded the impact of any potential recovery as of December 31, 2011.

(6) Risk-Based Capital

The National Association of Insurance Commissioners developed the Managed Care Organization Risk-Based Capital Report and required all HMOs to complete the report beginning with the year ended December 31, 1998. Risk-based capital (RBC) was developed as a method of measuring the minimum amount of capital appropriate for a managed care organization to support its overall business operations in consideration of its size and risk profile. A company's RBC target is calculated by applying certain factors to various asset, premium and reserve items. Four action levels of RBC have been defined to set industry standards for regulatory intervention. The specific capital levels, in declining order are as follows: 1) Company Action Level (CAL), 2) Regulatory Action Level (RAL),

3) Authorized Control Level (ACL), and 4) Mandatory Control Level (MCL). Companies at the Company Action Level must submit a comprehensive financial plan to the insurance commissioner of the state of domicile. Companies at the Regulatory Action Level are subject to a mandatory examination or analysis by the commissioner and possibly required corrective actions. At the Authorized Control Level, a company is subject to, among other things, the commissioner placing it under regulatory control. At the Mandatory Control Level, the insurance commissioner is required to place a company under regulatory control. All HMOs licensed in the District of Columbia are subject to the RBC provisions. Chartered's RBC ratio was approximately 42% as of December 31, 2011.

In May 2012, Chartered submitted a comprehensive financial plan with the Department of Insurance, Securities and Banking Regulation of the District of Columbia (the Department) outlining its plan for attaining all of the required levels of RBC. Chartered failed to make satisfactory progress in achieving the capital requirements to exit the MCL status and with the approval of Chartered's Board of Directors and its owner, on October 19, 2012 the Department placed Chartered into court receivership.

(7) Minimum Net Worth and Regulatory and Contractual Requirements

As required by the District of Columbia's Health Maintenance Organization Act of 1996 (the Act), Chartered entered into a Health Maintenance Organization Custodial Agreement dated February 27, 1998. Chartered maintains a certificate of deposit of $317,000 which is included in certificates of deposit, pledged on the statutory statements of admitted assets, liabilities, and capital and surplus at December 31, 2011, for the sole benefit of Chartered's members in the event of Chartered's insolvency. Under the laws of the Act, Chartered is also required to maintain a minimum net worth equal to the greater of (1) $1,000,000; (2) the sum of all uncovered health care expenditures for the latest three-month period ending December 31, March 31, June 30, or September 30; (3) 2% of its annual revenues; or (4) a prescribed percentage of annual health care expenditures. According to the Act a health maintenance organization shall not be required to maintain a net worth in excess of $4,000,000. At December 31, 2011, Chartered's statutory net worth was $5,949,445. Chartered was in compliance with its minimum statutory net worth requirements.

Under the terms of its Medicaid contract with the DHCF, Chartered is also required to meet certain financial requirements. As such, Chartered is required to maintain a positive net worth, and insolvency reserves or deposits that equal or exceed the minimum requirements established by the Department as a condition for maintaining a certificate of authority to operate an HMO in the District. Chartered met or exceeded the minimum net worth, insolvency reserve, and deposit balance requirements as of December 31, 2011.

(8) Commitments and Contingencies

(a) Leases

Chartered is obligated under several non-cancelable leases for office space, office equipment and vehicles. Future amounts due under these leases are as follows:

2012	$ 1,580,842
2013	1,251,284
2014	761,189
2015	258,878
2016	177,330

Total rent expense was $1,242,692 for the year ended December 31, 2011.

(b) Litigation

Chartered is from time to time subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the statutory financial statements, except for litigation brought against the DHCF by Chartered. See Note 5 for further information on this litigation.

(c) Risk-Based Contract Dispute Settlement

In the third quarter of 2008, Chartered executed a co-guarantor agreement with its parent company, DCHSI, wherein Chartered guaranteed a $13,333,567 long term Bank Loan Payable (Loan). Chartered, DCHSI, and Cardinal Bank, an operating unit of Cardinal Financial Corporation, (NASDAQ; CFNL) executed an agreement under which Chartered serves as a co-guarantor on the loan and to collateralize the loan with specific securities currently held by Chartered.

The Loan originated from the settlement and dispute resolution agreement for contractual disputes with the Office of the Attorney General for the District of Columbia, which required DCHSI to pay $13,333,567. DCHSI financed the settlement payment through a $13,138,558 long term Bank Loan Payable. Payments of interest only on the outstanding principal balance are due monthly through November 12, 2012, thereafter payments of principle and interest will continue monthly through November 10, 2018, based on a 25 year amortization schedule. Interest is calculated at an annual fixed rate of 5.65% for the first five years, thereafter adjusting to a rate equal to the Federal Home Loan Bank 5 year rate plus 1.50%. Chartered and the owner of DCHSI are co-guarantors of the loan.

Pursuant to the Loan, Chartered is required to pledge investments in the amount of $13,333,567 as collateral for the Loan. In the event that DCHSI defaults on or is not able to meet its obligations under the provisions of the Loan, the owner of DCHSI has executed an Indemnification Agreement to irrevocably and unconditionally hold Chartered harmless and indemnify Chartered for any monies that Chartered is or may be obligated to pay under the guaranty agreement and pledge and security agreement, including but not limited to any liquidation of the pledged collateral.

Management concluded that the pledged investments are an admitted asset under Statement of Statutory Accounting Principle 91R, *Accounting for Servicing of Financial Assets and Extinguishment of Liabilities* (SSAP No. 91R), paragraph No. 14, *Secured Borrowings and Collateral*, and Interpretation 01-31, *Assets Pledged as Collateral* (INT-01-31). Management communicated with the Department of Insurance, Securities and Banking of the District of Columbia which determined that the pledged investments, referred to above, should be classified as admitted assets. Accordingly, $13,953,879 of pledged investments is included as certificates of deposit, pledged in the accompanying statements of admitted assets, liabilities and capital and surplus at December 31, 2011.

Effective April 12, 2012, Cardinal Bank, executed a Modification Agreement to a certain "Pledge, Assignment and Security Agreement" dated October 10, 2008. The Modification Agreement is between D.C. Healthcare Systems, Inc., Jeffrey E. Thompson and D.C. Chartered Health Plan, Inc., wherein on the effective date, the Lender, Cardinal Bank, "releases and discharges D.C. Chartered Health from its obligation under the Guaranty".

The Modification Agreement releases Chartered as a guarantor on a loan between Cardinal Bank and the parent holding company DCHSI. This issue relates directly to new accounting guidance that requires a reporting entity to book a liability for any guarantees made on behalf of a parent entity. As this release was granted prior to the filing of the Statutory Statement it is treated as a Type I Subsequent Event and no liability was reported on Chartered's Statutory Statement in accordance with SSAP No. 9 – *Subsequent Events.* The Modification Agreement did not affect assets Chartered has pledged related to DCHSI's loan.

(d) Contingent Contributions

In addition to the Settlement Agreement, DCHSI, Chartered, and the owner of DCHSI entered into a Letter Agreement (Agreement) with the District that requires DCHSI, Chartered, and the owner of DCHSI to make contributions to the District of Columbia Department of Health's Immunization Program and several other not-for-profit organizations, including the District of Columbia Public Education Fund, of approximately $1,050,000 each year for a period of five years beginning January 1, 2009. Under the Agreement, these contributions will be made subject to the following conditions being met: (1) the funds received by the various organizations from the previous year were used for the purposes outlined in the Agreement, (2) the submission of a report that demonstrates that the funds were expended in compliance with the Agreement, and (3) Chartered and DCHSI are able to maintain "normal operations" during that year. Therefore, if the District fails to use the funds provided as required, the District is unable to account for related expenditures, or either Chartered or DCHSI suffer adverse financial circumstances, the commitments become void or are subject to renegotiation. Management believes that there is more than a remote likelihood that the above mentioned conditions were not be met as of December 31, 2011, and accordingly has not accrued a liability. Chartered will record the expense in the period in which the payments are made. Chartered did not record any contributions expense for the year ended December 31, 2011.

(e) Employment Contracts

Chartered has entered into employment agreements with its key executives, establishing minimum compensation levels, performance requirements, severance and certain other benefits.

(9) Reinsurance Coverage

Chartered is financially responsible for the cost of each enrollee's medical services. Annual inpatient hospital services per enrollee were reinsured by a third-party insurance carrier as follows:

Effective dates	Limits of coverage
October 1, 2010 through September 30, 2011	$300,000 plus 50% of paid services in excess of the $300,000 deductible amount
October 1, 2011 through September 30, 2012	$300,000 plus 50% of paid services in excess of the $300,000 deductible amount

The insurance company provides coverage above these deductible amounts. The maximum reimbursement per enrollee is limited to $1,000,000 and $2,000,000, in the aggregate, for contract years ending September 30, 2011 and 2012, respectively.

For the year ended December 31, 2011, Chartered incurred reinsurance premium expense of $1,399,379, which is included as a reduction to premium revenue in the accompanying statutory statement of operations. For the year ended December 31, 2011, Chartered had reinsurance recoveries of $702,156, which are included as a reduction to health care costs in the accompanying statutory statements of operations.

(10) Federal Income Taxes

The components of the net deferred tax asset in the accompanying statutory statement of admitted assets, liabilities and capital and surplus at December 31, 2011 are as follows:

	2011		
	Ordinary	Capital	Total
Gross deferred tax assets	$ 6,695,441	$ -	$ 6,695,441
Statutory valuation allowance adjustment	6,695,441	-	6,695,441
Adjusted gross deferred tax assets	-	-	-
Gross deferred tax liability	-	-	-
Net deferred tax assets	-	-	-
Nonadmitted deferred tax assets	-	-	-
Net admitted adjusted deferred tax assets	$ -	$ -	$ -
Increase (decrease) in nonadmitted deferred tax assets	$ -	$ -	$ -

The components of the admissibility calculation, by tax character, as of December 31, 2011 are as follows:

	2011		
	Ordinary	Capital	Total
SSAP No. 10R, paragraph 10.a.	$ -	$ -	$ -
SSAP No. 10R, paragraph 10.b	-	-	-
The lesser of SSAP No. 10R, paragraph 10.b.i. and 10.b.ii.:			
SSAP No. 10R, paragraph 10.b.i.	-	-	-
SSAP No. 10R, paragraph 10.b.ii.	-	-	-
SSAP No. 10R, paragraph 10.c.	-	-	-
SSAP No. 10R, paragraph 10.e.	$ -	$ -	$ -
SSAP No. 10R, paragraph 10.e.ii.	-	-	-
The lesser of SSAP No. 10R, paragraph 10.e.ii.a. and 10.e.ii.b:			
SSAP No. 10R, paragraph 10.e.ii.a.	-	-	-
SSAP No. 10R, paragraph 10.e.ii.b.	-	-	-
SSAP No. 10R, paragraph 10.e.iii.	-	-	-

Used in SSAP No. 10R, paragraph 10.d.	2011
Total adjusted capital	$ 5,949,445
Authorized control level	-

The components of Chartered's provision for federal income taxes for the year ended December 31, 2011 are as follows:

	2011
Current year income tax	$ -
Tax on capital gains	-
Prior year tax over accrual	-
Federal income tax provision	$ -

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2011are as follows:

	2011	
	Ordinary	Capital
Deferred tax assets:		
Discounting of unpaid losses	$ 287,026	$ -
Unearned premium reserve	-	-
Depreciation	828,892	-
Investments	-	-
Accrued expenses	91,697	-
Nonadmitted assets	2,121,899	-

Net operating loss carryforward	1,764,126	-
Charitable contributions	210,939	-
Tax credit carryforward	-	-
Other	1,390,862	-
Subtotal	6,695,441	-
Nonadmitted	6,695,441	-
Admitted deferred tax assets	$ -	$ -
Deferred tax liability:		
Investments	$ -	$ -
Depreciation	-	-
Deferred and uncollected premium	-	-
Unrealized gains	-	-
Deferred tax liability	-	-
Net admitted deferred tax assets	**$** -	**$** -

The change in net deferred income taxes as reported in the accompanying statements of changes in policyholders' surplus for the year ended December 31, 2011 are as follows:

	2011	
	Ordinary	Capital
Total deferred tax assets	$ 6,695,441	$ -
Total deferred tax liabilities	-	-
Net deferred tax asset	$ 6,695,441	$ -

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	Amount	Tax Effect at 35%	Effective Tax Rate
Income before taxes	$ (9,354,215)	$ (3,273,976)	35.00%
DRD deduction and tax-exempt interest, net	-	-	0.00%
Penalties	1,581	553	-0.01%
Prior year under accrual	265,442	92,906	-0.99%
Change in nonadmitted assets	(577,930)	(202,276)	2.16%
Meals and entertainment	19,814	6,935	-0.07%
Other	640	224	0.00%
Change in Valuation Allowance	-	6,695,441	-36.09%
Total	$ (9,644,668)	$ 3,319,807	0.00%

At December 31, 2011, Chartered had approximately $5,000,000 of net operating loss carryforwards. The following income tax expense for 2011 would be available for recoupment in the event of future net losses:

2011	$ -

Chartered is included in a consolidated federal income tax return with its parent company, D.C. Healthcare Systems, Inc. for the fiscal tax years through April 30, 2010. Chartered has a written agreement, approved by Chartered's Board of Directors, which sets forth the manner in which the total combined federal income tax is allocated to each entity that is a party to the consolidation.

(11) Health Care Costs Payable

A summary of the activity for health care costs payable is as follows:

Balance at January 1, 2011	$ 31,432,098
Plus incurred related to:	
Current year	341,924,875
Prior years	4,671,525
Total incurred	346,596,400
Less paid related to:	
Current year	301,351,842
Prior years	33,676,656
Total paid	335,028,498
Balance at December 31, 2011	$ 43,000,000

Chartered uses actuarial techniques based on historical experience to estimate incurred claims. Amounts incurred related to prior years may vary from previously estimated liabilities as the claims are ultimately settled at amounts different than initially estimated. Liabilities at any year-end are continually reviewed and re-estimated as information regarding actual claims payments becomes known. This information is compared to the originally established year-end liability. Positive amounts reported for incurred related to prior years result from claims being settled for amounts greater than originally estimated. This experience is primarily attributable to actual medical cost experience being less favorable than that assumed at the time the liability was established. Chartered incurred other health care costs, which primarily consisted of capitation payments to providers of health care services for Chartered's members of $13,536,294 for the year ended December 31, 2011.

(12) Professional Liability Insurance

During 2011, Chartered maintained a healthcare general liability insurance policy, which is written on a claims-made basis. The coverage limits for this policy are $1 million per occurrence and $3 million aggregate. Similarly, Chartered maintained a managed care liability insurance policy, which is also written on a claims-made basis. During 2011, the coverage limits were $1 million per claim and $3 million aggregate. Coverage limits were increased during 2012 to $6 million per claim and $8 million aggregate. These policies remained in full force and effect during 2011 and have been renewed through March 2013.

Chartered also has purchased an umbrella liability insurance policy that provides an additional coverage limit of $5 million per loss event. This policy has been renewed through March 2013.

In management's opinion, there are no pending or anticipated claims against Chartered for activities covered by the above-described liability insurance policies, which would have a material effect on the results of operations, cash flows, or financial position of Chartered.

(13) Related-Party Transactions

Chartered has entered into various services arrangements with certain related parties, including DCHSI and CFHC. Chartered has not been able to fully substantiate certain related party transactions. Chartered has evaluated known related party receivables for collectability and has determined them to be uncollectible as of December 31, 2011. At December 31, 2011, Chartered recognized a bad debt expense of $3,855,522 related to related party balances which is reflected on the statutory statement of operations.

(14) Defined Contribution 401(k) Plan

Chartered sponsors a 401(k) plan (the Plan) for its employees. Employees are eligible to participate in the Plan if they are at least 21 years of age and have worked 90 days or longer at Chartered. Employees may contribute between 1% and 12% of eligible salary on a pre-tax basis. Chartered makes a discretionary matching contribution to the Plan of 12% of each employee's contribution amount. Chartered contributed $41,827 to the Plan for the year ended December 31, 2011.

(15) Other Income

Chartered included in other income $7,500,000 related to a September 9, 2011 signed order of judgment from the District of Columbia Contracts Appeals Board. The settlement was related to a dispute over rates paid to Chartered for dental capitation. Chartered recorded $1,460,582 of other expense related to a permanent impairment of goodwill that was non-admitted in prior periods. Additionally, Chartered had miscellaneous income of $303,780 during 2011.

(16) Fair Value of Financial Instruments

Chartered's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by accounting standards prescribed or permitted by the DISB. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1), quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the investment (Level 2), and the lowest ranking to fair values determined by using methodologies and models with unobservable inputs (Level 3). Classification is based on the lowest level input that is significant to its measurement. Assets and liabilities recorded at fair value in the statutory statements of admitted assets, liabilities, capital and surplus are categorized based upon the level of judgment associated with the inputs used to measure their fair value. At December 31, 2011, Chartered's bonds of $15,025,957 consisted entirely of Level 2 assets.

(17) Dividends Paid

There were no dividends approved or paid during the year ended December 31, 2011.

(18) Concentrations

Chartered earns 100% of its premium revenue under contracts with the District. The current contract expires on April 30, 2013 and Chartered has chosen not to submit a bid for the subsequent contract.

Chartered is limited in both insureds and medical care providers to those within the geographic boundaries of the District of Columbia with limited exceptions.

(19) Subsequent Events

Management has evaluated subsequent events through January 9, 2013, which is the date that these statutory financial statements were issued.

Type I – Recognized Subsequent Events

Effective April 12, 2012, Cardinal Bank, executed a Modification Agreement to a certain "Pledge, Assignment and Security Agreement dated October 10, 2008. The Modification Agreement is between D.C. Healthcare Systems, Inc., Jeffrey E. Thompson and D.C. Chartered Health Plan, Inc., wherein on the effective date, the Lender, Cardinal Bank, "releases and discharges D.C. Chartered Health from its obligation under the Guaranty".

The Modification Agreement releases Chartered as a guarantor on a loan between Cardinal Bank and the parent holding company DCHSI. This issue relates directly to new accounting guidance that requires a reporting entity to book a liability for any guarantees made on behalf of a parent entity. As this release was granted prior to the filing of the Statutory Statement it is treated as a Type I Subsequent Event and no liability was reported on Chartered's Statutory Statement in accordance with SSAP No. 9 – *Subsequent Events.*

Type II – Nonrecognized Subsequent Events

The following subsequent events have occurred:

- The Chairman of the Board stepped down in April 2012.
- KPMG (the prior auditors) notified Chartered in April 2012 that they were resigning as Chartered's external auditors.
- The Audit Committee and Board of Directors approved Brown Smith Wallace, LLC as Chartered's new audit firm for the year ended December 31, 2011.
- On October 19, 2012 the Department of Insurance, Securities and Banking placed Chartered into court receivership as a result of the voluntary receivership action approved by Chartered's Board of Directors and authorized by its owner.
- Chartered elected not to submit a response on December 3, 2012 to the office of OCP's request for proposal for a new 5-year contract. Chartered's contract will end on April 30, 2013 and no further premiums will be received.
- Chartered has entered into a non-binding Letter of Intent on December 1, 2012, for the sale of certain assets with a third-party.

- On December 4, 2012, MedStar Health provided notice of contract terminations on behalf of Washington Hospital Center Corporation (WHC) and MedStar—Georgetown Medical Center, Inc. (GUH) effective January 4, 2013. Subsequently, MedStar filed a motion in the Superior Court for the District of Columbia seeking to prevent Chartered from recouping amounts on patient claims which Chartered asserts under the contracts. Chartered has not calculated the financial impact of the contract terminations or litigation as of the date of this report.

(20) Reconciliation of Amounts Reported in the Annual Statement and Statutory Financial Statements

The below schedule summarizes the differences between Chartered's 2011 annual statement and the statutory financial statements presented herein.

	Annual statement	Difference	Financial statements
Assets:			
Total Admitted Assets	$47,658,334	$10,186,457	$57,844,791
Liabilities and Capital and Surplus:			
Total Current Liabilities	$46,216,394	$5,678,952	$51,895,346
Total Capital and Surplus	$1,441,940	$4,507,505	$5,949,445
Net Loss:			
Total Underwriting Income	$355,498,611	$28,244,567	$383,743,178
Total Underwriting Expenses	378,642,292	7,213,913	385,856,205
Net investment income	432,338	(161,202)	271,136
Net loss on premium balances charged off	(1,027,504)	(8,972,496)	(10,000,000)
Other expense/income	7,815,547	5,327,871	2,487,676
Federal income tax expense	(960,716)	960,716	-
Net loss	$(14,962,584)	$5,608,369	$(9,354,215)
Cash Flows:			
Net cash used in operating activities	$(9,804,717)	$(1,090,552)	$(8,714,165)
Net cash used in investing activities	(972,248)	(1,875,639)	(2,847,887)
Net cash provided by financing activities	926,833	(1,194,745)	(267,912)
Cash and cash equivalents, end of year	$18,955,149	$(1,979,831)	$16,975,318

D.C. CHARTERED HEALTH PLAN, INC., in Receivership
(A Wholly Owned Subsidiary of D.C. Healthcare Systems, Inc.)

Summary Investment Schedule

Year ended December 31, 2011

(See Independent Auditors' Report on Supplemental Information)

Investment holdings	Admitted assets as reported in the statutory financial statements	
	Amount	Percentage
Cash and cash equivalents:		
Cash and money market funds	$ 16,975,318	53.0%
Bonds:		
Certificates of deposit	15,025,957	47.0%
Total invested assets	$ 32,001,275	100.0%

See accompanying independent auditors' report.

D.C. CHARTERED HEALTH PLAN, INC., in Receivership
(A Wholly Owned Subsidiary of D.C. Healthcare Systems, Inc.)

Summary Investment Schedule - Continued

Year ended December 31, 2011

(See Independent Auditors' Report on Supplemental Information)

(1) Total admitted assets: $ 57,844,791

(2) 10 largest exposures to a single issuer/borrower/investment:

Investment category	Amount	Total admitted assets
Cardinal Bank	$ 9,591,714	16.58%
Premier Bank	$ 480,000	0.83
Aurora Bank FSBLEH	$ 250,000	0.43
First Bank of Puerto Rico FBP	$ 250,000	0.43
First Bank of Puerto Rico CEN	$ 250,000	0.43
Alliance Bernstein	$ 250,000	0.43
State Bank of India	$ 250,000	0.43
Communit National Bank of Waterloo, IA	$ 250,000	0.43
Tristate Capital Bank	$ 250,000	0.43
Bank of China	$ 250,000	0.43

(3) Total admitted assets held in bonds and preferred stocks by NAIC rating:

Bonds	Amount	Percentage	Stocks	Amount	Percentage
NAIC-1	$ 15,025,957	26.0%	P/RP-1	None	
NAIC-2			P/RP-2		
NAIC-3			P/RP-3		
NAIC-4			P/RP-4		
NAIC-5			P/RP-5		
NAIC-6			P/RP-6		

(4) There were no admitted assets held in foreign investments and unhedged foreign currency exposure.

(5) - (11) There were no admitted assets held in Canadian investments, no unhedged Canadian currency exposure, nor any Canadian-currency-denominated investments, which support Canadian-denominated insurance liabilities.

(12) There were no admitted assets held in investments with contractual sales restrictions.

(13) There were no admitted assets held in equity interests.

(14) There were no privately placed equities.

(15) There were no admitted assets held in general partnership interests.

(16) - (17) There were no admitted assets held in mortgage loans.

(18) - (19) There were no assets held in real estate.

(20) There were no admitted assets subject to securities lending, repurchase, reverse repurchase, dollar repurchase, or dollar reverse repurchase agreements.

(21) There were no warrants.

(22) There was no potential exposure for collars, swaps, and forwards.

(23) There was no potential exposure for future contracts.

See accompanying independent auditors' report.